

CACD/BVC

Decision 91-08-021 August 7, 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of CALIFORNIA-AMERICAN  
WATER COMPANY (U 210 W) to issue  
and sell its First Mortgage Bonds  
not exceeding \$10,000,000 principal  
amount and to execute and deliver  
a Supplemental Indenture.

**ORIGINAL**

Application 91-04-027  
(Filed April 24, 1991)

OPINION

Summary of Decision

This decision grants California-American Water Company (Cal-Am) the authority requested in Application 91-04-027 (Application).

Cal-Am requests authority, under Public Utilities (PU) Code §816-830 and 851, for the following:

1. To issue, sell and deliver, in one or more series, up to \$10,000,000 aggregate principal amount of its First Mortgage Bonds (Debt Securities);
2. To execute and deliver a Seventh Supplemental Indenture;
3. To exempt its proposed Debt Securities from the requirements of the Commission's Competitive Bidding Rule under Commission Resolution No. F-616; and
4. To use the proceeds from the sale of the Debt Securities to discharge its short-term indebtedness and to reimburse its treasury for capital expenditures.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of April 25, 1991. No protests have been received.

Cal-Am, a California corporation, operates as a public water utility subject to the jurisdiction of this Commission. Cal-Am provides water service to customers in portions of Los Angeles, Ventura, San Diego and Monterey counties.

For the twelve-month period ended December 31, 1990, Cal-Am reported that it generated total operating revenues of \$41,362,224 and net income of \$4,899,213 as shown in Exhibit A to the Application.

Also shown as part of Exhibit A is Cal-Am's condensed Balance Sheet at December 31, 1990, summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$ 99,719,563
Other Investments	66,675
Current Assets	6,498,921
Deferred Charges	<u>6,512,202</u>
<b>Total</b>	<b>\$112,797,361</b>
 <u>Liabilities and Equity</u>	
Common Stock Equity	\$ 34,668,794
Long-Term Debt	40,000,000
Current Liabilities	12,551,994
Advances for and Contributions in Aid of Construction	15,418,955
Deferred Credits	<u>10,157,618</u>
<b>Total</b>	<b>\$112,797,361</b>

Debt Securities

Cal-Am requests authority to issue, sell and deliver the utility's Debt Securities in the aggregate principal amount not to exceed \$10,000,000, on or before September 30, 1991. The Debt Securities are to be issued in accordance with, secured by, and have terms and conditions set forth in the Trust Indenture dated October 1, 1969, executed and delivered by Cal-Am to the Bank of

America, as Trustee. The Trust Indenture has been amended by six supplemental indentures, the forms of which have been filed with the Commission. A Seventh Supplemental Indenture would be executed and delivered with the series of Debt Securities. The Seventh Supplemental Indenture would set forth, among other things, the aggregate principal amount, interest rate, and the maturity date of the series of Debt Securities. The Seventh Supplemental Indenture would be substantially similar to other supplemental indentures filed by Cal-Am with the Commission.

Cal-Am has not, at the present time, entered into any contract for the purchase and sale of the utility's Debt Securities, nor does Cal-Am have any agreement providing for their issuance. Cal-Am plans to place the Debt Securities privately with institutional investors.

Because of recent unstable market conditions, Cal-Am does not believe that it is in its best interest, or in the best interest of its ratepayers, to determine the definitive terms of the Debt Securities at this time. Therefore, Cal-Am requests Commission authority to offer, issue, sell and deliver the Debt Securities with terms and conditions which will provide for the following:

1. Interest rates based upon market conditions existing at the time of negotiating the terms;
2. Restrictive redemption provisions, if any, which will reflect the requirements of the existing bond market at the time of sale;
3. Redemption premiums for the periods and in the amounts the bond market will require at the time of sale;
4. Maturities of approximately ten years; and

5. Any other provisions that Cal-Am shall deem appropriate in connection with the issuance and sale of its Debt Securities that are not inconsistent with the Trust Indenture.

Request for Exemption from Competitive Bidding

Under the provisions of Commission Resolution No. F-616, dated October 1, 1986, Cal-Am's proposed issue and sale of the Debt Securities is exempt from the Commission's Competitive Bidding Rule set forth in Decision (D.) 38614, dated January 15, 1946, in Case 4761, as amended by D.49941, D.75556 and D.81908, because the aggregate principal amount is less than \$20,000,000.

The Commission Advisory and Compliance Division (CACD) notes and we concur that this decision does not find the proposed costs of this debt issue to be reasonable for ratemaking purposes. We place Cal-Am on notice that in its next general rate proceeding before the Commission, the reasonableness of the interest rate and cost of money resulting from the proposed financing will be closely scrutinized and may result in a disallowance of the interest expense if it is determined that the cost of money incurred was not prudent.

Capital Ratios

Cal-Am's capital ratios at December 31, 1990 and after giving effect to the proposed Debt Securities financing are as follows:

<u>Component</u>	<u>December 31, 1990</u>	<u>Pro Forma</u>
Long-Term Debt	55.5%	61.0%
Common Equity	<u>44.5</u>	<u>39.0</u>
Total	100.0%	100.0%

These capital ratios give pro forma effect to the proposed sale of up to \$10,000,000 aggregate principal amount of Cal-Am's Debt Securities (Common Stock Equity is net of the unamortized balance of acquisition adjustment).

Cal-Am is placed on notice by this decision that the Commission does not find that Cal-Am's capital ratios are necessary or reasonable for ratemaking purposes. Those are issues normally tested in general rate cases or rate base offset proceedings.

#### Use of Proceeds

Cal-Am proposes to issue and sell its Debt Securities for the purposes of discharging Cal-Am's short-term debt obligations and reimbursing its treasury for capital expenditures.

If none of the Debt Securities are sold, based upon Cal-Am's projections at December 31, 1990, Cal-Am's short-term debt is anticipated to be \$10,000,000 at June 30, 1991 and \$18,000,000 at December 31, 1991.

#### Construction Budgets

The Application indicates that Cal-Am is engaged in an extensive construction program and the expenditures required for construction purposes for the recorded year 1990 were \$9,252,857. Based upon its annual forecast, Cal-Am estimates that expenditures required for this construction program for 1991 will approximate \$23,372,850. Cal-Am estimates that internally generated funds will provide approximately 15% of the total cash requirements including construction expenditures for 1991.

Cal-Am's construction budget for 1991 is summarized as follows:

<u>Component</u>	<u>Amount</u>
Land, Water Supply, Distr. Plant Trans. & Distr. Mains, Services, Hydrants	\$ 5,269,034 16,561,236
Meters, Minor Main Replace., Office & Trans. Equipment	<u>1,542,580</u>
Total	\$23,372,850

CACD has reviewed Cal-Am's construction budget and has determined that the financing is necessary to fund the proposed construction. CACD has no objection to Cal-Am's proposed issuance and sale of its Debt Securities as requested in the Application; however, Cal-Am is placed on notice, by this decision, that the Commission does not find that its construction program is necessary, or reasonable, for ratemaking purposes. These are issues normally tested in general rate or rate base offset proceedings.

Cash Requirements Forecast

Cal-Am's cash requirements for the year 1991, as provided as part of Schedule III in Exhibit B of the Supplemental Data attached to the Application, is as follows:

<u>Component</u>	
Funds used and/or Required for Constr. Expenditures	\$20,858,200
Short-Term Debt Outstanding	<u>6,500,000</u>
Total	\$27,358,200
Less: Cash from Internal Sources	<u>4,098,600</u>
Additional Funds Required From Outside Sources	\$23,259,600

CACD has analyzed Cal-Am's cash requirements forecast for 1991 and has concluded that internally generated funds will provide approximately 15%, or \$4,098,600, of capital requirements for 1991. Cal-Am will require additional funds from outside sources amounting to approximately \$23,259,600 in 1991. CACD has concluded that Cal-Am's proposed issuance and sale of its Debt Securities is necessary to help meet forecasted cash requirements.

Findings of Fact

1. Cal-Am, a California corporation, operates as a public water utility under the jurisdiction of this Commission.
2. The proposed issuance and sale of the Debt Securities are for proper purposes and are not adverse to the public interest.
3. Cal-Am needs external funds for the purposes set forth in the Application.
4. The proposed Debt Securities are exempt from the Commission's Competitive Bidding Rule under Commission Resolution No. F-616.
5. The proposed redemption provisions pertaining to the Debt Securities are reasonable.
6. The proposed Supplemental Seventh Indenture is not adverse to the public interest.
7. The money, property, or labor to be procured or paid for by the proposed Debt Securities is reasonably required for the purposes specified in the Application.
8. The Commission does not, by this decision, determine that Cal-Am's construction program is necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate or rate base offset proceedings.
9. There is no known opposition to the Application and no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.
2. The Application should be granted to the extent set forth in the following Order.
3. The proposed Debt Securities are for lawful purposes and the money, property or labor to be obtained, or paid for, by them is required for these purposes. Proceeds from the security issues may not be charged to operating expenses or income.
4. The following Order should be effective on the date of signature and payment of the fee set by PU Code §1904(b), to enable Cal-Am to issue its Debt Securities expeditiously.

O R D E R

IT IS ORDERED that:

1. California-American Water Company (Cal-Am), on or after the effective date of this Order and on or before December 31, 1991, may issue, sell, and deliver at one time, or from time to time, up to \$10,000,000 aggregate principal amount of its First Mortgage Bonds (Debt Securities), in one or more series, by means of negotiated private placements, negotiated public offerings, or by competitive bidding, upon terms and conditions substantially consistent with those set forth or contemplated in Application 91-04-027 (Application).
2. Cal-Am's Debt Securities are exempt from the Commission's Competitive Bidding Rule set forth in Resolution No. F-616.
3. Cal-Am may execute and deliver one or more supplemental indentures consistent with the terms and conditions set forth in the Application.



4. Cal-Am shall determine the specific terms of the Debt Securities based on market conditions at the time of sale.

5. Cal-Am shall apply the net proceeds from the sale of the Debt Securities to the purposes set forth in the Application.

6. Within 15 days of execution, Cal-Am shall file with the Commission Advisory and Compliance Division (CACD) three copies of the Supplemental Indenture.

7. Within 15 days after executing the contract for the sale of the Debt Securities, Cal-Am shall file a copy of the contract and a written report with CACD showing the interest rate and the cost of money to Cal-Am based on the price and interest rate.

8. Within 30 days after the issuance and sale of the Debt Securities, Cal-Am shall file with CACD a report setting forth the reasons Cal-Am believes the resulting interest rate and cost of money were the most advantageous to Cal-Am and its ratepayers.

9. Cal-Am shall file the reports required by General Order Series 24.

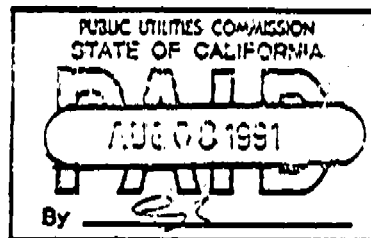
10. The Application is granted as set forth above.

The authority granted by this Order to issue Debt Securities will be effective when Cal-Am pays \$11,000, the fee set by Public Utilities Code §1904(b). In all other respects, this Order is effective today.

Dated August 7, 1991, at San Francisco, California.

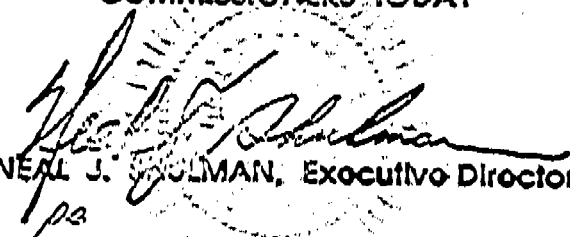
PATRICIA M. ECKERT  
President  
G. MITCHELL WILK  
JOHN B. OHANIAN  
NORMAN D. SHUMWAY  
Commissioners

Commissioner Daniel Wm. Fessler, being necessarily absent, did not participate.



\$ 11,000.00  
Rec. # 34812

I CERTIFY THAT THIS DECISION  
WAS APPROVED BY THE ABOVE  
COMMISSIONERS TODAY

  
NEAL J. SOLMAN, Executive Director